NOTE 5 – TREASURER'S COMMON CASH

A. General Accounting Policies

The State Treasurer manages the State's Common Cash pool, which is used by most State funds. The pooling of cash allows the Treasurer to invest monies not needed to pay immediate obligations so that investment earnings on available cash are maximized. Investments of the pool are not segregated by fund; rather, each contributing fund's balance is treated as equity in the pool. Many funds, including pension (and other employee benefits) trust funds, use their equity in the pool as a short-term investment vehicle. The Treasurer separately publishes the "Annual Report of the State Treasurer" which includes audited schedules of Common Cash Assets and Equities, Investment Portfolios of Specific Funds, and Investment Earnings.

In this report, the Common Cash pool is not reported as a separate fund. Instead, each State fund's balance in the pool is presented as "Equity in Common Cash."

All negative balances in the pool are reclassified at year-end as interfund liabilities. If the negative balance is considered long-term, the reclassification is recorded as an advance.

Statute or administrative policy determines whether a particular fund receives or pays interest on its balances in the pool. If a fund does not receive or pay interest, the General Fund receives or absorbs such amounts. Earnings on positive balances and charges on negative balances are allocated quarterly based upon the average daily balances of the various funds and the average investment earnings rate for the quarter. Accrued earnings of the pool are recorded as assets, with the accrual allocated to the various funds' equity in the pool. Interest revenues on positive balances and interest charges on negative balances are reflected as revenues or expenditures/expenses of each of the participating funds.

B. Investments and Deposits

The investment authority for the Common Cash pool is found in P.A. 105 of 1855, as amended. The State Treasurer may invest surplus funds belonging to the State in the bonds, notes, and other evidences of indebtedness of the United States Government, and its agencies; and in prime commercial paper. Certificates of deposit are permitted in financial institutions whose principal office is located in the State.

The Treasurer invests excess cash in short-term investments, mostly prime commercial paper. The law does not prohibit the Treasurer from entering into repurchase agreements; however, the Treasurer did not use these agreements in managing the pool in fiscal year 2000-2001.

Statutes provide for certain special State investment programs for which the General Fund is credited (charged) for earnings in excess of (under) those achieved by regular pool investments. There have been no principal losses because of these programs to date. The most significant program provides for emergency loans to local units of government. The Treasurer may loan not more than a combined total of $5 million in any one fiscal year to qualifying cities, villages, or townships in amounts as approved by the Emergency Financial Assistance Loan Board.

In fiscal year 1999-2000 the Emergency Financial Assistance Loan Board was authorized to approve the lending of up to $159.9 million to Wayne County to finance the payment of certain obligations to the State. The outstanding balance at September 30, 2001 was $41.8 million. Loan repayments by the County are supported by provisions of the loan agreement and legislation that pledge the County's share of a portion of the State collected taxes on cigarettes. There were no repayments on the loans in fiscal year 2000-2001.

<u>Michigan Marina Dredging Loan Program</u>: Public Act 280 of 2000 provides for a program under which financial institutions may make low-interest loans to eligible marinas for dredging costs necessitated by low water levels to accommodate the use of the marina by recreational watercraft.

Under this program, the Department of Treasury and a financial institution may enter into an investment agreement under which the Department of Treasury will invest the State's Common Cash with the financial institution at an agreed upon interest rate (generally 1.5 percent per annum). The financial institution will then use the principal to make a low-interest loan to an eligible marina.

The Act specifies that the maximum amount of a Michigan marina-dredging loan is $75 thousand per marina. The total amount of outstanding loans is statutorily limited to $20 million. The loans accrue at an interest rate of six percent, and the loans' term may not exceed seven years. Other details about the loans are available in the investment agreement. The total amount loaned in fiscal year 2000-2001 was $.6 million; repayments during the year were $71 thousand.

Assets and equities of the Common Cash pool as of September 30 were as follows (in millions):

ASSETS	
Cash on hand	$ -
Demand deposits	128.1
Time deposits – regular	54.0
Time deposits – Marina Loan Programs	.6
Prime commercial paper – at cost	4,549.6
Interest receivable	13.8
Emergency loans to local units – at cost	42.1
Total assets	$ 4,788.2
EQUITIES	
Fund equities (net) in Common Cash (1):	
Governmental activities	$ 4,211.3
Business-type activities	147.4
Fiduciary funds	209.5
Discretely presented component units	219.9
Net fund equities	$ 4,788.2

(1) Negative equity balances in the pool are reclassified at year-end as interfund receivables and liabilities. Current balances are included with "Amounts due from other funds" and "Amounts due to other funds" and long-term amounts are classified as interfund advances. Note 20 summarizes interfund receivables and liabilities.

The following paragraphs provide disclosures about deposits and investments of the Common Cash pool, as required by GASB Statement No. 3. Please see Note 8 for a description of the GASB custodial credit risk categories and for information about deposits and investments, which are not part of the Common Cash pool.

Deposits
At September 30, 2001, the carrying amount of deposits, including time and demand deposits, was $182.6 million. The deposits were reflected in the accounts of the banks at $182.6 million. Of the bank balance, $7.1 million was covered by federal depository insurance (GASB credit risk category 1), $174.9 million was collateralized with securities held by the State's agent in the State's name (GASB credit risk category 1), and $.6 million of demand deposits which are uninsured and uncollateralized (GASB credit risk category 3). Compensating balances kept in demand deposit accounts to avoid service charges totaled $198.5 million at September 30, 2001.

Investments
Using the GASB categories of custodial credit risk, all of the investments (including prime commercial paper and emergency municipal loans) are in category 1. The emergency municipal loans are evidenced by notes held by the State in the State's name, so they fall in custodial credit risk category 1. At September 30, 2001, the fair value of prime commercial paper was $4.6 billion.